THE MUNICH RE GROUP UK PLAN "THE SCHEME"
STATEMENT OF INVESTMENT PRINCIPLES: SEPTEMBER 2020

1. Introduction

This Statement has been drawn up in accordance with Section 35 and 36 of the Pensions Act 1995 and subsequently the Occupational Pension Schemes (Investment) Regulations 2005 (S.I. 2005/3378 "the Investment Regulations"), as well as Section 114 of The Pensions Act 2014.

Trust law requires that the Trustee must exercise their powers of investment in the best of interest of members and beneficiaries. In exercising these powers, the Trustee has received advice and guidance from independent parties. Consultation has taken place with the Employer to ensure that the investment strategy followed properly accords with the Employer's attitude to risk.

This latest Statement of Investment Principles replaces the previous one dated 19 September 2019.

The Scheme invests in a portfolio of gilts with 'Cash Flow Matching' as the keystone of the investment strategy; which is aligning the cash flows from Scheme assets i.e. the income and capital repayments at maturity from nominal and index linked gilts, against the expected cash flow profile of the Scheme liabilities.

It is intended that full investment strategy reviews coincide with the finalising of triennial actuarial valuations. The finalisation of the 2018 triennial Actuarial Valuation has triggered the latest re-balancing of the gilt portfolio, which was carried out in July 2019.

Section 36(3) of Pensions Act 1995 requires the Trustee to obtain and consider proper advice on the question of whether the selected investments are satisfactory and suitable. Broadly, the Act requires the Trustee to take proper advice from a party authorised under appropriate financial services legislation. The Trustee and Employer continue to believe that the utilisation of UK gilt portfolio continues to be appropriate to the Scheme's circumstances.

Lane Clarke & Peacock (LCP) is regulated in accordance with financial services legislation via the Institute and Faculty of Actuaries to give independent investment advice, when required.

The Trustee holds the Scheme's assets in an (exempt approved) Trust.

This statement does not conflict with the Trustee's powers of investment as set out in the Scheme's Trust Deed and Rules.

The Scheme's investment managers are also required to comply with this Statement.

2. Delegation

The overall responsibility for investment decisions continues to rest with the Trustee. An 'Investment Co-ordinator' independently monitors activity and developments on the UK gilt portfolio and reports to the Trustee and Actuarial Advisers regularly.

In the appendices to this document, included are the duties of the 'Investment Co-ordinator' that are set out.

3. Day to Day Fund Management

The day to day fund management of the assets is performed by a professional fund manager and custodian of gilt holdings in Barclays Stockbrokers. Barclays Stockbrokers are appointed on an 'execution only' basis and therefore only take instructions on which gilt stocks to hold, either directly from the Trustee Chairman, another appointed Trustee Director of the Scheme or more commonly dedicated individuals with delegated responsibility within Munich Re's Shared Accounting Function. The Investment Co-ordinator carries out calculations when dis-investment or re-investment is required, in accordance with the recommendations of LCP.

The Trustee is satisfied that Barclays Stockbrokers have sufficient expertise and the experience to carry out all aspects and core disciplines of fund management within the brief they have been given.

As the arrangement with Barclays Stockbrokers is execution only asset turnover costs are kept to a minimum. Transactions are reviewed by the Investment Co-ordinator to ensure that they have been carried out correctly and to review any fees incurred. Transactions are reviewed by the Directors at each Trustee meeting. In addition, annual custody fees are kept to a minimum and are reviewed in the market periodically.

The Trustee's intention is to appoint investment managers for the long term and avoid switching between investments based solely on short term performance, thus incurring transaction costs which may not be offset by future returns.

Barclays Stockbrokers' appointment as asset manager will next be reviewed by 31 December 2023.

4. Key Objectives of Setting Investment Strategy

The Trustee has set the following objectives;

- To acquire suitable assets and appropriate liquidity that will generate necessary income and capital growth to meet the cost of current and future benefits, which the Scheme provides.
- To ensure as far as possible that the Scheme's assets meet arising liabilities.
- To ensure as far as possible that the Scheme's investment strategy and related operation fully comply with up to date legislation and regulatory measures and requirements.
- To minimise the cost of investment transactions related to the Scheme as far as possible.
- To achieve optimum efficiency and simplicity within the operation of the investment strategy.
- To seek to bring the impact of investment risks on the portfolio as close to zero as possible and thereby reduce the need for the Employer to pay unbudgeted additional special contributions into the Scheme in future.

5. Risk Measurement and Management

The Trustee and Investment Coordinator consider the following risks:

i. Cash Flow Risk

The risk of a short fall of liquid assets relative to the immediate liabilities; the Trustee and Investment Co-ordinator, together with advisers and administrators will manage cash flows taking into account the timing of future payments.

ii. Financial Mismatching Risk

The risk of a significant difference in the sensitivity of asset and liability values to changes in financial factors, in particular inflation and interest rates. The Trustee, Investment Co-ordinator and advisers, when appropriate, will manage these risks by monitoring the key characteristics and taking corrective action when required.

iii. Demographic Risk

Demographic factors include the uncertainties surrounding mortality projections such as future improvements in mortality experience, and these will continue to be monitored in conjunction with the Scheme's actuarial advisers.

iv. Manager Risk

The failure of a fund manager to achieve the rate of investment return assumed by the Trustee; this issue is considered as part of the investment review procedures put in place. However, with the pre-determined nature of gilt portfolio and the historic and current security of the asset class, the Trustee considers that this risk has been substantially reduced. Careful consideration and consultation took place with the decision to invest the assets of the Scheme entirely in a UK gilt portfolio, including a full assessment of the risks involved, and these were felt to be much less than using active or passive funds operated by outside parties.

v. Concentration Risk

The risk that the performance of any single asset class or single investment that constituted a significant portion of the assets would disproportionately influence the Trustee's core objectives. With the assets now being invested virtually 100% in gilts, it is recognised that there is some exposure to Concentration Risk, but due to the nature and scope of gilts as an asset class, it was considered that this is adequately mitigated.

vi. Counterparty Credit Risk

The possibility of default of counterparty in meeting its obligations, again it is acknowledged that whilst a gilt portfolio in isolation is a single counterparty, the nature, scope and characteristic of the asset class and the arrangements by which they are held is secure.

vii. Systemic Risk

The risk connected to the possibility of failure of a company, business or organisation that manages the Scheme's assets. This was agreed to be significantly reduced by using a gilt portfolio.

viii. Transition Risk

The risk of incurring inappropriate costs in relation to the transition of assets of pension schemes; the Trustee mitigates this risk by eliminating unnecessary transition activity and by using specialist managers to implement transition of assets with the explicit aim of minimising costs. It also achieves the objective of grouping together separate transactions to achieve beneficial economies of scale.

ix. Custody Risk

The risk of misappropriation of assets, delivery that is not in accordance with the instructions, unauthorised use of assets for the benefit of other customers of the custodian, inadequate segregation of customer assets, failure to collect income, recover tax or respond to corporate events and custodial default. The Trustee assesses and considers the actions by the custodian at outset and on an ongoing basis to mitigate "custody risk". This risk was mitigated by adopting the strategy of placing assets, close to 100% in a UK gilt portfolio under separate custodial arrangements.

All of these risks which the Trustee and Investment Co-ordinator monitor are a potential threat to the success of a strategy, but with the strategy adopted it is felt that they have been considered and countered, as far as reasonably possible.

6. Corporate Governance and ESG

i. Corporate Governance

Since the Trustee's policy is to invest entirely in gilts that have no rights attached to them, the Trustee does not need to have a policy in relation to the exercise of any rights. Similarly, the Trustee does not have a policy in relation to undertaking engagement activities in respect of these investments and does not require Barclays Stockbrokers to do so either.

ii. Financially material investment considerations

Since the Trustee's policy is to invest entirely in gilts, the Trustee does not take into account environmental, social and governance issues (including but not limited to climate change) in the selection, retention and realisation of its investments.

iii. Non-financially material investment considerations

The Trustee does not take into account non-financially material factors (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions, and has no plans to seek the views of the members on these matters.

7. Setting the Investment Strategy

The investment strategy is closely linked with the membership profile of the Scheme, it lends itself to the operation of a defined processes and related procedure. Hence, Barclays Stockbrokers operate on an 'execution only' basis and take their instructions from the Shared Accounting Function after monthly consultation (on behalf of the Employer) with the Trustee and the Investment Co-ordinator.

The process and related procedures were properly audited and diligently checked for robustness and practicality, prior to being implemented. Furthermore the Trustee was reassured as to exposure to personal risk should there be any problems or faults within the enactment of the cash flow matching process.

The Trustee considered the following key investment related matters;

1) Appropriate margins for prudence.
2) Legislative best practice.
3) Appropriate and responsible mortality assumptions.
4) Most responsible basis for valuing the assets and liabilities in actuarial terms.
5) How best to neutralise inflation risk.
6) How to successfully address market volatility.
7) Consideration of cost to enact proposals and recommendations on containing costs thereafter.
8) Administrative practicality.
9) The requirement to pay tax free cash lump sums at retirement for members, as well as other commutation items.
10) Security of assets and relative ease of ability to realise required sums of cash.

These issues are also reflected in the assumptions used by Cartwright, the Actuarial Advisers to the Trustee.

To enact this approach LCP now recommend the following cashflow management policy:

- Disinvest from the holding in the 1¾% Sept 2022 fixed gilt GB00B7L9SL19 for any cash required for the regular pension payroll; and
- For all other cashflows (including re-investment where applicable), apply such investments or disinvestments across the following three gilts in the proportions below:

- 50% 2% Jan 2035 index-linked GB0031790826
- 20% 5/8% Nov 2042 index-linked GB00B3MYD345
- 30% ½% Nov 2050 index-linked GB00B421JZ66

The cash flow matching investment strategy will continue to be fully reviewed every three years in alignment with the regular triennial actuarial valuations. It is anticipated in this regard that LCP will again work collaboratively with the Trustee and Cartwright to carry out future reviews.

Signed for and on behalf of the Trustee of the Munich Re Group UK Plan

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Name (Block capitals)

Tony Dumycz

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DATE 24th September 2020

Appendix 1. Responsibilities of the Investment Co-ordinator

The Investment Co-ordinator shall be responsible for:

- Taking action following Trustee investment decisions, providing valuations and month end reports, keeping the Trustee updated on Scheme assets to ensure smooth running of the Scheme and facilitate the provision of information to support Trustee decisions.
- Cross check and verify investment constituents showing progressive performance to aid the Trustee in managing the Scheme assets.
- Monitor the level of cash balance in the Trustee's bank account at each month end to ensure that there is sufficient to meet regular liabilities and outgoings.
- Ensure that all transactions within the Trustee's bank account are correct and in order.
- Monitor and check that dividend coupon income sums are accurate and paid on time.
- Carry out calculations of the number of stocks that need to be sold when a disinvestment is required to be made to meet an unanticipated outgoings or liabilities, such as a cash equivalent transfer value. This is done in accordance with recommendations made by LCP in July 2019, so that a (named) representative of the Reinsurance Controlling and Cash Management (UK) Department within Munich Re can instruct the deal on an execution only basis.
- Carry out a similar calculation to above, in order to ensure that there is sufficient liquidity within the Trustee's bank account to meet regular cash flow requirements, liabilities and outgoings.
- Similarly, to act when there needs to be a reinvestment within the gilt portfolio.
- Carry out follow up action and reconciliation to ensure the accuracy and validity of the transaction having previously taken place.
- Be responsible for regular liaison and reporting of developments between the Trustee, the portfolio manager (Barclays Stockbrokers), the Reinsurance Controlling and Cash Management (UK) Department within Munich Re and the Scheme administrators and Actuarial Advisers, Cartwright and co-ordinate resultant requirements and actions. Ensure that all is in order with the management and operation of the Scheme assets.
- To calculate and provide investment performance related and valuation figure work for insertion into the Annual Pension Scheme Report and Accounts.
- To provide the Pension Scheme auditors with all the investment related information they require in connection with the drawing up and auditing of the annual report and accounts (sometimes via authorised internal accounting parties within Munich Re).
- To draft the investment report for insertion into the Annual Pension Scheme Report and Accounts.

Appendix 2. Responsibilities of the Portfolio Manager (Barclays Stockbrokers)

- Clear and immediate enactment of instructions from the Trustee and/or Shared Accounting Function of Munich Re.
- Providing regular statements and valuations of assets held.
- Informing the Trustee of any changes in the internal operational or contractual matters impacting on the Scheme in a timely manner with reasonable notice.
- Ensuring the coupon dividend income is paid into the Trustee's bank account on the day it falls due being the same day it is received at Barclays Stockbrokers.
- Investing income paid out of the Trustee's bank account for investment purposes in a timely manner i.e. on the same day it is paid from the Barclays bank account.
- Reconciling the record assets held with those of the custodian.
- Producing contract notes promptly for verification of transactions following sales or purchases of gilt stock.

Appendix 3. Responsibilities of the Custodian

- The safekeeping of all directly held assets of the Scheme.
- Undertaking all appropriate administration relating to assets of the Scheme.
- Processing all income with respect to the Scheme in a timely manner.
- Processing all tax reclaims in a timely manner.
- Investing cash in a suitable low risk manner consistent the Trustee’s instructions and understanding.
- Reconciling records of assets held with those of the managers.

Appendix 4. Procedure for Dis-investment or Re-Investment of Gilt Stock

1) Balance of Trustee's bank account to be jointly monitored at the end of each calendar month by Shared Accounts and Scheme Administrator.

2) If the balance exceeds £700,000, Investment Co-ordinator to liaise with Reinsurance Controlling and Cash Management (UK) Department within Munich Re and if necessary Chairman of the Trustee.

3) At this stage, a check needs to be carried out with Cartwright to ensure that there are no arising outgoings needing to be paid out of the Trustee's bank account.

4) Once it is confirmed an adjustment calculation is required, the Investment Co-ordinator is required to carry out the calculation.

5) The trade needs to be enacted between authorised individuals from Reinsurance Controlling and Cash Management (UK) Department within Munich Re and Barclays Stockbrokers in accordance with the previously agreed and applied process on an execution-only basis, when the balance has gone beyond ***£800,000.***

4) The excess 'free cash' amount that can be traded should be a **minimum** of ***£100,000*** to make the transaction practical and viable from an 'economies of scale' perspective.

   The transaction can then be completed in accordance with LCP recommendations as follows;

- disinvest from the holding in the 1¾% Sept 2022 fixed gilt GB00B7L9SL19 to deal with regular pension payroll; and
- for all other cash flows (including the re-investment of surplus cash) aim to maintain the average sensitivity of the overall liabilities as far as possible. This is around 21 years.

To enact this latter approach LCP now recommend applying such investments e.g. to meet retirement benefits or cash equivalent transfer values and disinvestments across the following three gilts as per the proportions below:

- 50% 2% Jan 2035 index-linked GB0031790826
- 20% 5/8% Nov 2042 index-linked GB00B3MYD345
- 30% ½% Nov 2050 index-linked GB00B421JZ66